HealthView Services

2021

Retirement Healthcare Costs Data Report

Executive Summary

Healthcare is one of the biggest expenses and worries facing Americans in retirement, and the cost of healthcare continues to rise. Fortunately, data and resources are available to assist financial professionals and people planning for retirement to take steps now to mitigate the impact of these costs. Data-driven cost projections can serve as the foundation for this important preparation.

In HealthView Services' 2021 Retirement Healthcare Costs Data Report, readers will find not only the national average projections, as detailed in past reports, but also a range of projections for healthcare costs based on a variety of individual circumstances. These ranges take into account numerous factors that can increase or decrease a retiree's overall healthcare expenses.

This more detailed approach will show the value of personalized projections to empower individuals and financial professionals to make choices that will affect their future and gain an added measure of control.

Note to the Reader

This report represents the beginning of a new approach to our annual release of retirement healthcare cost projections and information.

For this white paper, released in December 2020, we have updated our methodology to develop a prospective report for the year ahead. This report includes projected health care costs for 2021, whereas prior year reports focused on current year data. This new methodology allows us to proactively offer cost projections and important information for the year to come.

These choices might include making lifestyle changes to improve their health, which could lower their annual costs, or saving more aggressively in the years leading up to retirement. They may decide to plan for additional years of longevity, to ensure they can cover rising healthcare costs in the future. Or they might choose to include out-of-pocket spending in their cost projections, so their savings target more closely matches their future expenses.

Key Highlights

1. Healthcare costs will continue their historical trend of rising at a rate **2-2.5 times** that of U.S. inflation.

2. Total projected lifetime healthcare costs for a healthy 65-year-old couple retiring in 2021 are expected to be **$662,156**.

3. This couple would experience a (blended) average annual healthcare cost inflation rate of **5.9%** throughout the years they are each retired.

4. For an average 65-year-old couple who start receiving Social Security payments at 65, healthcare expenses will consume **68%** of their benefits.

5. While most 65-year-old couples retiring in 2021 can expect their retirement healthcare costs to fall between **$156,208 and $1,022,997**, factors such as the state in which they retire, coverage choices and chronic health conditions can have a significant impact on where within that range they may fall, highlighting the importance of personalized healthcare cost planning.

Healthcare Cost Inflation Rates

The historical trend of healthcare costs rising 2 to 2.5 times faster than overall U.S. inflation is projected to continue. The rise in costs can be tied to several factors, but one of the greatest is the limited price elasticity of healthcare. In other words, people pay for healthcare regardless of cost, because they need it.

However, not all health costs increase at the same rate. Different types of premiums and individual types of care will rise at varying rates in the coming years, as shown in the table below. That's why it's impractical to apply a single inflation rate to all healthcare components.

Table A: Projected Average Annual Inflation Rates on Retirement Healthcare Cost Components, 2021-2029

Premiums		Out-of-Pocket Costs	
Category	**Inflation**	**Category**	**Inflation**
Medicare Part B	5.9%	Hospitalization	1.4%
Medicare Part D	4.9%	Doctors/Tests	2.8%
Medigap Plan G	3.5%	Prescriptions	4.1%
Dental	4.5%	Dental	4.5%
		Vision	3.0%
		Hearing Services & Hearing Aids	3.0%

With premiums and out-of-pocket expenses combined, a healthy 65-year-old married couple will experience an average annual healthcare inflation rate of 5.9% throughout the 23 years each are retired. This figure takes into account three factors:

1. The weighted healthcare cost inflation illustrated above
2. In addition to cost inflation, Medigap utilizes an age-rating policy, which charges higher rates for individuals as they age (thus, costs increase by an average of 7.7% year-to-year)
3. Increasing need for out-of-pocket healthcare services as one ages

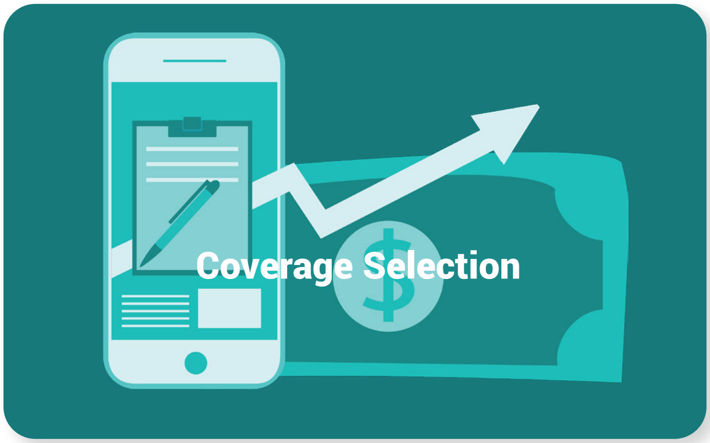
It is important to remember that the projected healthcare inflation rate is by no means guaranteed to remain the same over time. On the contrary, it may change every year depending on how the individual components shift. For example, while Part B premiums will only rise by 2.7% from 2020 to 2021, the long-term inflation rate is projected to be more than double that: 5.9%.

Healthcare Cost Variables

When it comes to planning for healthcare costs in retirement, there's no one-size-fits-all approach. Costs vary from person to person—and it's not just an individual's medical needs that dictate how much they'll pay.

At best, applying a single average cost projection to everyone results in an imprecise target. At worst, that figure could be dangerously off-base for an individual whose health costs are likely to be significantly higher than the average.

That's why it's critical to factor in the variables that affect healthcare costs. Financial professionals can help their clients prepare for their unique future costs by developing plans that are tailored to the individual. Personalized plans should take into account a number of factors, including:



Coverage Selection

Coverage choices drive monthly premiums and out-of-pocket spending. Healthcare needs tend to increase as people age, so out-of-pocket expenses can add up fast. But wise coverage selection can have a substantial impact on those costs:

Medicare Part D

Original Medicare includes Part A (hospitalization) and Part B (doctors and tests), but retirees can elect to add Part D (prescription drugs). Part D can help decrease costs in the long run as we age, but many people overlook it early in retirement, when their prescription drug needs are lower. However, if a retiree chooses to add Part D later on, there's a penalty of 1% of the premium cost per month for each month they lacked drug coverage (from Medicare or other qualifying plans). For example, a 72-year-old man who declined to sign up for prescription drug coverage in 2014, when he was 65, might find himself in greater need of medications today. Mitigating these costs with Medicare Part D insurance means he would have to pay an extra 84% for Part D coverage in 2021. This penalty is permanent, so he will continue to pay an annually-adjusted additional cost every year he receives Part D coverage.

Supplemental Insurance (Medigap)

Medigap is meant to fill in the gaps left by basic Medicare coverage. This becomes especially valuable in the case of a catastrophic event, like a heart attack, stroke, or broken bone. Enrollees pay a monthly premium, which varies by state and by plan. Out-of-pocket spending is likely to be considerably lower for hospitalization, doctor visits and tests with Medigap coverage.

Medicare Advantage (Plan C)

Medicare Advantage is an alternative to Medicare Parts A and B (and for some plans with drug coverage, Part D as well). This option allows a person to purchase retirement health insurance coverage from a private company, rather than the government. To be clear, people who sign up for Medicare Advantage are ineligible for Medigap and vice versa. An individual can sign up for one or the other, but not both.

Dental Insurance

Medicare is known to cover everything except “above the neck and below the ankles”. In other words, traditional Medicare doesn’t cover mental health, vision, hearing, dental or podiatry. Dental care can be one of the more expensive healthcare needs in retirement, and dental coverage must be purchased privately.

Some people prefer to plan only for healthcare premiums as a fixed expense they know they’ll have to pay every single month, omitting out-of-pocket spending from their projections altogether. Budgeting for out-of-pocket costs is up to the individual and their advisor, but it’s worth keeping in mind that these variable expenses can add up to a significant piece of an individual’s overall healthcare bill: For a healthy couple retiring in 2021 at age 65, lifetime out-of-pocket costs will total nearly $208,000 on average – even if they have additional coverage such as Medicare Part D, Medigap and dental insurance.

Health & Longevity

Perhaps unsurprisingly, a person’s overall health is an important factor in how much they’ll spend on healthcare. Someone who is healthy and has few doctor visits per year can likely expect to pay less out of pocket annually than someone who suffers from a chronic condition that requires regular office visits and medication. Diabetes and high blood pressure, for example, can lead to higher out-of-pocket spending due to doctor visits, hospital stays, medical tests, prescriptions and other expenses. As discussed in the 2018 Retirement Healthcare Costs Data Report, properly managing these conditions can lead to reduced annual spending. Notably, 50% of U.S. adults have at least one chronic health condition.

However, people without chronic conditions - and even those who are in excellent health - don't necessarily skate by with low costs. In fact, the healthier a person is, the more they'll spend on retirement healthcare. They won't pay more on an annual basis, but the total costs spread over the course of their lifetime can be higher due to a longer lifespan—which results in additional years of paying for healthcare. That's why healthier people have all the more reason to prepare for these expenses.

Employing useful indicators can help financial professionals ensure that a client's plan will cover their needs later in life. Those factors include:

- **Current age.** Younger people have a slightly higher overall life expectancy than older people.
- **Gender.** Women typically live about two to four years longer than men.
- **Health conditions.** Chronic conditions can significantly impact how long a person lives, as well as the quality of those years.

Table B: Average Life Expectancy for a 55-Year-Old, by Gender and Health Status

Health Status	Life Expectancy, Male	Life Expectancy, Female
Healthy (no conditions)	87	89
Type 2 Diabetes	77	80
Cardiovascular Disease	84	88
High Blood Pressure	86	88
High Cholesterol	84	87
Tobacco Use	80	83

Retirement Income

A person's means is another important factor that can affect their healthcare costs. Medicare's Income-Related Monthly Adjustment Amount (IRMAA), also known as Medicare means testing, determines how much an individual or couple pays for Medicare Parts B and D. In effect, the higher a retiree's income, the more they pay.

It is important to note that IRMAA is based on an individual's or couple's modified adjusted gross income (MAGI), which includes some, but not all, common types of retirement income. The key is to help clients understand not only how much to save, but how to save it. Financial planners can help limit MAGI in retirement with products such as non-qualified annuities, life insurance, Roth IRAs, health savings accounts and others. HealthView Services' 2019 white paper Medicare Surcharges: The Impact of Indexing IRMAA Brackets addresses this topic in much more detail.

Table C: IRMAA Brackets & Surcharges for 2021

	Single	Joint	Average Cost Increase on Parts B & D Premiums
Bracket 1	$0 to $88,000	$0 to $176,000	--
Bracket 2	$88,001 to $111,000	$176,001 to $222,000	35%
Bracket 3	$111,001 to $138,000	$222,001 to $276,000	88%
Bracket 4	$138,001 to $165,000	$276,001 to $330,000	141%
Bracket 5	$165,001 to $499,999	$330,001 to $749,999	194%
Bracket 6	$500,000 and higher	$750,000 and higher	212%

Over the course of a whole retirement, these added costs can be significant: a 65-year-old couple retiring in 2021 who finds themselves in the 3rd bracket throughout their retirement, will spend an additional $221,406 in IRMAA surcharges.

State of Residence in Retirement

Finally, a retiree's home base also affects their healthcare costs. Some states, like Massachusetts and Maryland, are more expensive, while Hawaii and New Mexico are on the less expensive side, with some components varying in price by as much as nearly 50%. Costs that vary based on an enrollee's state of residence include:

- Medicare Part D premiums
- Medicare Advantage plans
- Medigap premiums
- Out-of-pocket spending

Retirement Healthcare Cost Projections: 2021

When considering the variety of factors detailed above, most 65-year-old couples retiring in 2021 will spend between $156,208 and $1,022,997 on their lifetime retirement healthcare expenses. The size of this range illustrates the material impact that various factors can have on healthcare costs, and why it is so important to leverage the right tools and data to personalize savings strategies. To understand how a couple might reach the low and high figures, consider the following examples. (All numbers are shown in future value.)

Spouses Jack and Sarah both turn 65 on Jan. 1, 2021, and they both retire that day, too. They fall in the first IRMMA bracket, with a joint modified adjusted gross income (MAGI) of $150,000, and they sign up for Medicare Part B and Part D premiums only. Jack has high cholesterol, and Sarah has diabetes, and their life expectancies are 85 and 81, respectively. Their lifetime retirement healthcare costs will total $156,208.

But consider what happens when Jack and Sarah decide to add a Medigap Plan as supplemental insurance: With the additional coverage, their lifetime retirement healthcare costs rise to $274,151.

And if Jack and Sarah add dental insurance, which traditional Medicare doesn't cover, and factor in all of out-of-pocket spending to cover hospitalization, co-pays, tests, prescription drugs and hearing, vision and dental expenses, their total costs amount to $499,290.

A healthy, national average couple age 65 in 2020 will spend **$662,156** on retirement healthcare expenses.

Now consider Max and Laura, who start out with the same MAGI and coverage as Jack and Sarah. But they have no chronic conditions, and they both work on improving their health. Their better health leaves them with lower annual out-of-pocket spending than Jack and Sarah, but their overall costs go up because of their longer lifespans—they live to be 87 and 89, respectively. Those additional years of healthcare costs are the most expensive, due to healthcare inflation. With the added years of coverage, Max and Laura's lifetime retirement healthcare costs total $662,156. This scenario reflects assumptions highlighted in previous HealthView Data Reports when projecting costs for a 65-year-old couple.

Bob and Lily share all the same details as Max and Laura, except they decide to plan for even longer lifespans, just to be safe. With projected life expectancies of 89 and 91, respectively, their lifetime retirement healthcare costs increase to $767,056.

Enrique and Ramona have used the same assumptions as Bob and Lily, except their income is higher. With a joint MAGI of $250,000, they land in third IRMAA bracket, so they pay more for their Medicare Part B and Part D premiums. That puts their lifetime retirement healthcare costs at $988,462.

Finally, consider what happens if Enrique and Ramona choose to retire in Hawaii (the least expensive state for healthcare). Their projected lifetime costs will decrease by over 8%, to $906,926. However, if they opted to instead retire to New Jersey, a state where healthcare happens to be more expensive, their lifetime retirement healthcare costs would grow by more than 11% to $1,022,997 - a difference of over $116,000.

Other Healthcare Cost Considerations

On top of the factors discussed so far, several others play a part in how much a person pays for healthcare in retirement. Here are some additional details to consider when calculating an individual's or couple's projected costs:

- **Current age.** While an average, healthy 65-year-old couple will spend $662,156 over their lifetime, a 55-year-old couple will spend $1,035,980 and a 45-year-old couple will spend $1,718,977 under the same assumptions of the average case covered in the previous section. The younger you are, the more healthcare will cost over your lifetime, due to both inflation and rising healthcare costs. However, younger people have more time to save, so the savings contributions they must make to reach that total are more reasonable than they might otherwise appear: The 45-year-old couple* could invest $175,000 today – with a 6% annual rate of return – to cover their future unfunded health expenses, or choose a periodic investment strategy with a lower recurring investment.

- **Social Security benefits.** For an average 65-year-old couple, retirement healthcare costs will consume 68% of their gross Social Security, if they file for benefits at 65. That's why it's important to remember that most retirees can't rely on Social Security to cover all of their living expenses in retirement. In fact, Social Security benefits will fall far short for many.

> For an average 65-year-old couple, retirement healthcare costs will consume **68%** of their gross Social Security, if they file for benefits at 65.

- **Women face higher costs.** On average, women face a set of challenges that increase their overall healthcare costs in retirement and can make paying for those expenses more difficult. This topic is covered in our 2020 white paper, Addressing the Women's Longevity Gap. Those in opposite-sex relationships typically outlive their male partners by two to four years, and their longer lifespan equates to additional years of healthcare costs. Women also tend to earn less than men over the course of their working years, which in turn leaves them with lower Social Security benefits. Financial professionals can use personalized data and actuarial longevity data to help ensure that financial plans cover potential years of survivorship.

- **Early retirement.** All of the projections in this report assume a retirement age of 65—a useful starting place because 65 is the earliest that most Americans are eligible for Medicare and Medigap coverage. But if someone retires early and no longer has access to employer-sponsored health insurance, or loses coverage when their spouse retires, the added costs in those early retirement years can be substantial. Purchasing health insurance on the open market is costly because retirees have no subsidization from an employer, and likely will not qualify for any government subsidy, leaving them to foot the bill entirely. For instance, a single, diabetic California woman who retires (and forfeits employer-subsidized health coverage) at age 62 in 2021 will spend $74,359 on healthcare expenses during the first three years of retirement, when she is not yet eligible for Medicare and Medigap coverage.

**45-year-old couple example is based on the wife living to 90, not 89, per actuarial longevity projections.*

Accounting for all of these different factors can be complicated, but financial professionals who use advanced planning tools will give clients better clarity about how much their future healthcare costs may be, and how to develop an optimal investment strategy that might include a blend of:

Life Insurance	Annuities	Capital Market Products
Bonds	Increased Retirement Plan Contributions	Other Investments

How the COVID-19 Pandemic May Affect Healthcare Spending

The COVID-19 pandemic had a profound impact on American lives in 2020, altering everything from how people worked to how they shopped for groceries. And for those who are or live with someone who's immunocompromised, the viral threat has been an even bigger challenge.

The pandemic's effect on long-term health spending remains unknown, but some clear trends emerged. There was a sharp decline in claims, particularly early in the pandemic. At that point, the use of face masks wasn't widespread, many local governments issued lockdown orders and many Americans avoided close contact with others, including their healthcare providers. Under those conditions, nearly all elective services were canceled.

By the end of the second quarter, claims began to return to normal levels. However, cases of COVID-19 began to spike nationwide in the fall of 2020, and it's possible that elective services could halt again over the winter.

As the pandemic plays out in 2021, HealthView Services will track the following trends:

- The development of a COVID-19 vaccine that could effectively end the pandemic, and the effect of vaccines on health spending
- Long-term health issues related to COVID-19 infections, such as heart or lung damage
- Long-term health issues related to pausing of chronic condition management during the pandemic
- Whether emergency room and inpatient visits continue to decrease in frequency

- Mutations in the COVID-19 virus, and whether the healthcare industry will need to prepare for new strains, as it does with influenza
- Whether and how people catch up on elective services they canceled or put off during 2020
- The ongoing prevalence of telemedicine and its impact on costs for providers and patients
- The socioeconomic impacts of the pandemic and their effect on healthcare spending

Some trends obtained from Massachusetts Health Policy Commission presentations.

Legislative Changes Potentially Affecting Future Spending

There was little legislative action in 2020 that's expected to dramatically impact healthcare costs, but it's possible that more changes will occur in the coming months and years. President-elect Joe Biden has proposed expanding the Affordable Care Act and offering a public option. Whether he accomplishes this during his first years in office may hinge on whether Republicans maintain a majority in the U.S. Senate, which will not be decided until Georgia holds its two Senate run-off elections on Jan. 5, 2021.

However, an executive order takes effect at the start of 2021 that aims to increase healthcare cost transparency. Improving Price and Quality Transparency in American Healthcare to Put Patients First, which President Donald Trump signed into law in June 2019, requires all hospitals to publish their charges and negotiated rates to help people compare prices among different hospitals. By increasing price transparency, the policy aims to increase competition on prices. It remains to be seen whether it succeeds.

Conclusion

Healthcare remains a significant cost to Americans in retirement: As this report indicates, an average, healthy, 65-year-old couple retiring today will spend $662,156 on healthcare costs in retirement. Their costs will increase by 5.9% per year, as healthcare cost inflation continues to more than double the rate of U.S. inflation.

It is worth noting, however, that the range of potential costs is broad. The COVID-19 pandemic underscores the importance of planning carefully for healthcare expenses. Savvy planners must ensure that their analyses incorporate the full range of factors that affect retirement healthcare expenses—especially given that healthcare costs consume 68% of the average 65-year-old couple's Social Security benefits. For instance, financial professionals should consider clients' potential life expectancy, based on underlying factors including gender and health conditions. In addition, they should assess the impact of their clients' income on healthcare expenses, given that IRMAA surcharges can increase Medicare Part B & D premiums by over 200%.

With a clear picture of their potential lifetime retirement healthcare costs, people can make informed choices now about their own health and finances.

Appendix: Data & Assumptions

HealthView Services draws upon healthcare claims from 530 million individual cases, as well as actuarial and government data, to forecast retirement healthcare costs. Projections may include the cost of Medicare Parts B and D, Medigap (supplemental insurance) Plan G premiums, and dental premiums. Total lifetime projections may comprise out-of-pocket expenses related to hospitalization, doctors and tests, prescription drugs, dental, vision, hearing services and hearing aids. Investment solutions cover all of these costs, less Medicare Part B premiums, which are typically deducted directly from Social Security benefits.

Calculations assume actuarial longevity for different health conditions, genders and ages, and are shown as national averages, unless otherwise stated. The report uses future-value dollar estimates and does not include Medicare Part A premiums (no cost in retirement for about 97% of Americans) or IRMAA surcharges, unless otherwise stated.

As with any aspect of retirement planning, actual costs for individuals may vary from these averages.

About HealthView

Founded in 2008 by a team of financial professionals, healthcare industry executives, and physicians, HealthView Services is the nation's leading provider of healthcare cost projection software. Its portfolio of retirement healthcare planning applications – which create comprehensive and reliable cost projections for 33 million users annually – is utilized by advisors, financial institutions, employees and consumers.

Drawing on actuarial and government data, as well as 530 million medical claims, these applications rely on a patented data process that utilizes simple user inputs (age, gender, health conditions, income, and state) to create personalized estimates of retirement healthcare costs. The data also incorporates inflation projections for each component of retirement healthcare: Medicare premiums, supplemental insurance, and out-of-pocket spending.

With more than a decade of use across the financial services industry, these solutions have proven to be a powerful driver of savings and retirement planning. The firm has numerous software applications which include healthcare cost projections, long-term care costs, Medicare premiums and surcharges, Social Security optimization, etc. These tools give financial services' clients and retirement plan participants an individualized and actionable savings plan aimed at funding a customized expense projection.

The firm regularly published white papers on several industry topics, including women and longevity, health savings accounts, IRMAA, and more.